CETERA® INVESTMENT MANAGEMENT

# QUARTERLY RECAP

Fourth Quarter 2022 Recap

## At-A-Glance

The S&P 500 posted just one record high in 2022, on Jan 3, before sliding into a bear market in June. Following a 2022 loss of over 18.1%, the S&P 500 essentially ended the year at the same level as March 2021.

Among the three major U.S. indices, the Dow Jones Industrial Average (-6.86%) posted the smallest 2022 loss, rebounding a sharp 16.01% in the fourth quarter.

Megacap and growth tech stocks were hit hard in 2022, sending the Nasdaq Composite down 32.54% for the year. The Nasdaq lost 8.67% in December.

Following Russia's Feb 24 invasion of Ukraine, U.S. WTI crude oil reached $123.70 per barrel two weeks later. Yet following massive releases from the Strategic Petroleum Reserve, U.S. crude gained just $5.05 (+6.7%) in 2022, ending the year at $80.26/barrel.

Overall, the Bloomberg Commodity Index fell 2.45% in December, trimming a fourth quarter gain to 2.22%. For the year, the commodity index gained 16.09%.

| Market Indices[1] | December | 4Q 2022 | Full Year |
|---|---|---|---|
| S&P 500 | -5.76% | 7.56% | -18.11% |
| Russell 3000 | -5.86% | 7.18% | -19.21% |
| Russell 2000 | -6.49% | 6.23% | -20.44% |
| MSCI EAFE | 0.08% | 17.34% | -14.45% |
| MSCI Emerging Markets | -1.41% | 9.70% | -20.09% |
| Bloomberg US Aggregate Bond | -0.45% | 1.87% | -13.01% |
| Bloomberg US Municipal Bond | 0.29% | 4.10% | -8.53% |
| Bloomberg US Corporate High Yield | -0.62% | 4.17% | -11.19% |

[1]Morningstar Direct (all performance figures are total return based, which include reinvested dividends)

The S&P 500 ended 2022 with its largest percentage loss since its near 38% plunge during the global financial crisis in 2008. Markets in 2022 were stung by a series of cascading concerns over rising interest rates to curb red-hot inflation, recession fears, Russia's invasion of Ukraine and a resurgence of COVID-19 in China. While all three major U.S. equity indices ended the year with their first annual declines since 2018, the S&P 500 and Dow Industrials snapped their three-quarter losing streaks with solid fourth quarter gains. The Nasdaq Composite, however, capped a fourth consecutive quarterly loss for the first time since 2001. The S&P 500 rebounded over 7.5% in the fourth quarter, trimming annual declines, but losses deepened in December, culminating in tax-loss selling as the typical year-end Santa Rally failed to materialize.

The era of easy money decidedly drew to a close amid the Federal Reserve's fastest and most aggressive pace of inflation-fighting interest rate hikes since the 1980s. In all, the Fed raised interest rates seven times in 2022, including an unprecedented four-straight 0.75% rate increases before ending the year at the current 4.25%-4.50% target range. Consumer inflation reached a peak 9.1% annualized pace in June, it highest in over 40-years, before easing to 7.1% in November. Fed policymakers signaled a terminal (peak) rate of 5.1% in 2023, keeping rates high with no reductions foreseen until 2024.

Favorably, the Fed's preferred measure of inflation is also easing. The Personal Consumption Expenditures (PCE) Price Index continued to moderate, rising just 0.1% in November and up 5.5% from a year earlier. This is down from a 6.1% annualized pace in October. Meanwhile, core PCE prices (excluding volatile food and energy) rose 0.2% month-over-month in November and was up 4.7% year-over-year.

The 100 largest Nasdaq stocks (the Nasdaq 100 Index) skidded more deeply into a bear market, down 32.38% in 2022. The growth-focused Nasdaq indices suffered the steepest losses this past year in part because rising interest rates make future profits from growth companies less attractive. More broadly, Wall Street is forecasting fourth quarter 2022 S&P 500 corporate earnings to fall by 2.8% from the prior year. Overall, this would cap 2022 full-year S&P 500 earnings with 4.9% growth, down from 6.3% September 2022 estimate.

As shown in the style box performance boxes below, core large and mid caps slightly outperformed small capitalization stocks for the month, quarter, and for the year. Value-based stocks predominately outperformed their Growth counterparts in all three time periods. For the fourth quarter, the widest divergence between Value and Growth gains occurred in large caps, with a gap of over 10.2%. After five straight years of Growth outperformance, Value outpaced Growth by 21.6% in 2022. It was the strongest year of Value outperformance since 2000.

**December**

| | Value | Core | Growth |
|---|---|---|---|
| Large | -4.03% | -5.81% | -7.66% |
| Mid | -5.08% | -5.40% | -6.00% |
| Small | -6.56% | -6.49% | -6.42% |

**Fourth Quarter**

| | Value | Core | Growth |
|---|---|---|---|
| Large | 12.42% | 7.24% | 2.20% |
| Mid | 10.45% | 9.18% | 6.90% |
| Small | 8.42% | 6.23% | 4.13% |

**Full Year 2022**

| | Value | Core | Growth |
|---|---|---|---|
| Large | -7.54% | -19.13% | -29.14% |
| Mid | -12.03% | -17.32% | -26.72% |
| Small | -14.48% | -20.44% | -26.36% |

Morningstar Direct Style Box Index returns above are represented by: Large Value (Russell 1000 Value), Large Core (Russell 1000), Large Growth (Russell 1000 Growth), Mid Value (Russell Mid Cap Value), Mid Core (Russell Mid Cap), Mid Growth (Russell Mid Cap Growth), Small Value (Russell 2000 Value), Small Core (Russell 2000), Small Growth (Russell 2000 Growth). Source: Morningstar Direct, total return based, including reinvested dividends.

In the sector performance tables below, all 11 major sector groups ended negative in December with defensive sectors posting the small losses. The fourth quarter saw broad gains, led by Energy and Industrials and only two laggards (Communication Services and Consumer Discretionary). Although not shown in the table, the Energy sector fell 2.94% in December, trimming its sharp fourth quarter gain to 22.81% and extended its full year return to over 65.7%.

| **Top Sector Performers – December [1]** | **Bottom Sector Performers – December [1]** |
|---|---|
| Utilities (-0.53%) | Communication Services (-7.84%) |
| Healthcare (-1.91%) | Technology (-8.37%) |
| Consumer Staples (-2.82%) | Consumer Discretionary (-11.26%) |
| **Top Performers – Fourth Quarter [1]** | **Bottom Performers – Fourth Quarter [1]** |
| Energy (+22.81%) | Real Estate (+3.82%) |
| Industrials (+19.22%) | Communication Services (-1.38%) |
| Materials (+15.05%) | Consumer Discretionary (-10.18%) |
| **Top Performers – Full Year 2022 [1]** | **Bottom Performers – Full Year 2022 [1]** |
| Energy (+65.72%) | Technology (-28.19%) |
| Utilities (+1.57%) | Consumer Discretionary (-37.03%) |
| Consumer Staples (-0.62%) | Communication Services (-39.89%) |

[1]Morningstar Direct (all performance figures are total return based, which include reinvested dividends)

Internationally, the MSCI EAFE Index, representing developed equity markets outside the U.S. and Canada, outperformed relative to the S&P 500 in all three time periods. EAFE gains in the fourth quarter topped the S&P 500 by nearly 10%. Emerging markets similarly outperformed in December and in the fourth quarter, but overall 2022 losses were worse, falling just over 20%. Taiwan (-29.76%), South Korea (-29.36%) and China (-21.93%) fell the most among 2022 decliners, while Brazil (+14.15%) outperformed with strong gains for the year. Globally, the MSCI All-Country World Index rallied 9.76% in the fourth quarter, trimming its 2022 loss to 18.36%. For the quarter, the ACWI excluding U.S. performance gained 14.28%, while posting a 16.00% loss for the year.

U.S. Treasurys, as measured by the Bloomberg U.S. Government Bond Index, gained 0.72% in the fourth quarter, slightly narrowing its full-year loss to 12.32%. Looking at yields, the 10-year Treasury yield rose from 1.51% at the start of the year to 3.878% at the end of the year. The yield on policy-sensitive 2-year Treasury notes ended 2022 at 4.43%.

In other fixed-income assets, investment-grade bonds of all types (as measured by the Bloomberg U.S. Aggregate Bond Index) posted stronger fourth quarter gains (+1.87%), trimming its 2022 loss to 13.01%. Meanwhile, non-investment-grade high-yield corporate bonds outperformed in final quarter, with the Bloomberg U.S. Corporate High Yield Index rallying nearly 4.2% in the fourth quarter to trim its full-year loss to under 11.2%.

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This report is created by Cetera Investment Management LLC. For more insights and information from the team, follow @CeteraIM on Twitter.

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***Glossary***

**The Bloomberg U.S. Aggregate Bond Index** is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government–related and corporate debt securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency) debt securities that are rated at least Baa3 by Moody's and BBB- by S&P. Taxable municipals, including Build America bonds and a small amount of foreign bonds traded in U.S. markets are also included.

**The Bloomberg U.S. Municipal Bond Index** covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds. Eligible securities must be rated investment grade (Baa3/BBB- or higher) by Moody's and S&P and have at least one year until final maturity, but in practice the index holding have a fluctuating average life of around 12.8 years.

**The Bloomberg U.S. Corporate High Yield Index** measures the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt. Payment-in-kind and bonds with predetermined step-up coupon provisions are also included. Eligible securities must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 6.3 years.

The **Bloomberg U.S. Government Bond Index** is comprised of the U.S. Treasury and U.S. Agency Indices. The index includes U.S. dollar-denominated, fixed-rate, nominal US Treasuries and US agency debentures (securities issued by US government owned or government sponsored entities, and debt explicitly guaranteed by the US government).

The **Bloomberg Commodity Index** is a broadly diversified index that allows investors to track commodity futures through a single, simple measure. It is composed of futures contracts on physical commodities and is designed to minimize concentration in any one commodity or sector. It currently includes 19 commodity futures in five groups. No one commodity can comprise less than 2% or more than 15% of the index, and no group can represent more than 33% of the index (as of the annual re-weightings of the components).

The **Cboe Volatility Index®** (VIX®) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

The **MSCI EAFE** is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted.

The **MSCI Emerging Markets** is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index.

The **MSCI All-Country World Index (ACWI)** is a market cap weighted index designed to represent performance of the full opportunity set of large- and mid-cap stocks across 23 developed and 26 emerging markets, covering more than 2,700 companies across 11 sectors and approximately 85% of the free float-adjusted market capitalization in each market.

The **Russell 1000 Growth Index** measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values.

The **Russell 1000 Value Index** measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values

The **Russell 2000 Index** measures the performance of the small-cap segment of the U.S. equity universe and is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

The **Russell 3000 Index** measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market.

The **Russell Midcap Index** measures the performance of the mid-cap segment of the U.S. equity universe and is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap represents approximately 31% of the total market capitalization of the Russell 1000 companies.

The **S&P BSE SENSEX Index** is a free-float market-weighted index of 30 well-established and financially sound stocks on the Bombay Stock Exchange, representative of various industrial sectors of the Indian economy.

The **S&P 500** is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The **Dow Jones Industrial Average** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

The **Nasdaq Composite Index** includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad-based capitalization-weighted index.

The **Shanghai Composite Index** is a stock market index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange.

The **U.S. Dollar Index** is a weighted geometric mean that provides a value measure of the United States dollar relative to a basket of major foreign currencies. The index, often carrying a USDX or DXY moniker, started in March 1973, beginning with
a value of the U.S. Dollar Index at 100.000. It has since reached a February 1985 high of 164.720, and has been as low as 70.698 in March 2008.

**West Texas Intermediate (WTI)** is a crude oil stream produced in Texas and southern Oklahoma which serves as a reference or "marker" for pricing a number of other crude streams. WTI is the underlying commodity of the New York Mercantile Exchange's oil futures contracts.